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THE TRAP OF UNHEALTHY ECONOMIC GROWTH

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Abstract
The paper puts into discussion the necessity of having a healthy economic growthin order to achieve real economic and social progress. The analysis is focused on EU, Euro area and Romania and proposes a new approach in solving the connection between GDP andreal welfare. The literature review is the base for defying and implementing a new model. It covers: GDP, Private consumption, Public consumption, Gross fixed capital formation and Terms of trade of goods. The whole analysis leads to the conclusion that the economic growth in Romania is not based on economic performance, but on consumption. This process will have unfortunate repercussions on the Romanian economy in the future

Keywords: economic growth; economic model; real GDP; real welfare,

1. General approach

According to the official approach, 2017 marks "continued growth in a changing policy context" (European Commission, 2017). An average global economic growth of 3.5% in 2017 is forecasted to be continued by better performances of 3.7% in 2018 and 2019. In this context, EU28 achieved the best economic growth rates on short term across the most important regional actors, excepting China. The forecasts are optimistic, too (see Figure 1).

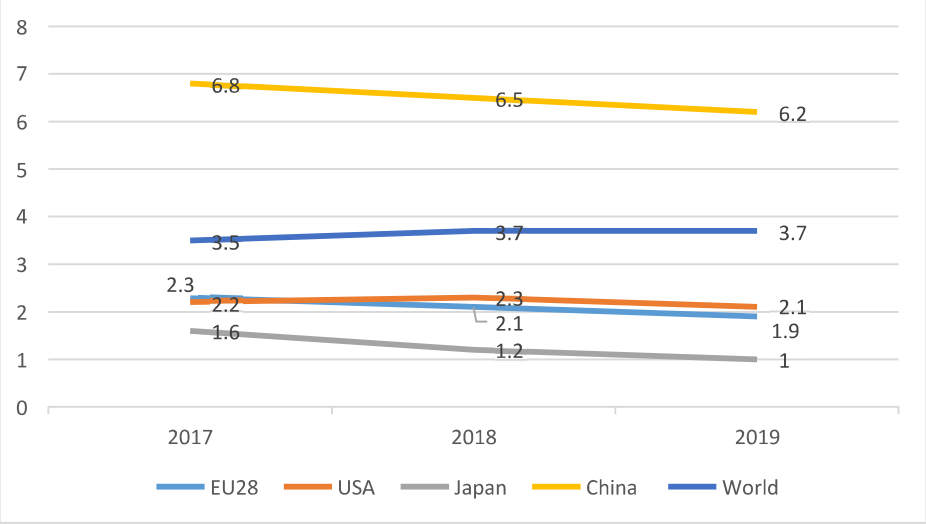

Figure 1: Annual economic growth rates (% of GDP)
Source: author's contribution

During the same period, 2017-2019, the Euro area will face to almost the

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same GDP growth rates as EU28. This supports the idea that the economic recovery is not finished in all Member States yet (see Figure 2).

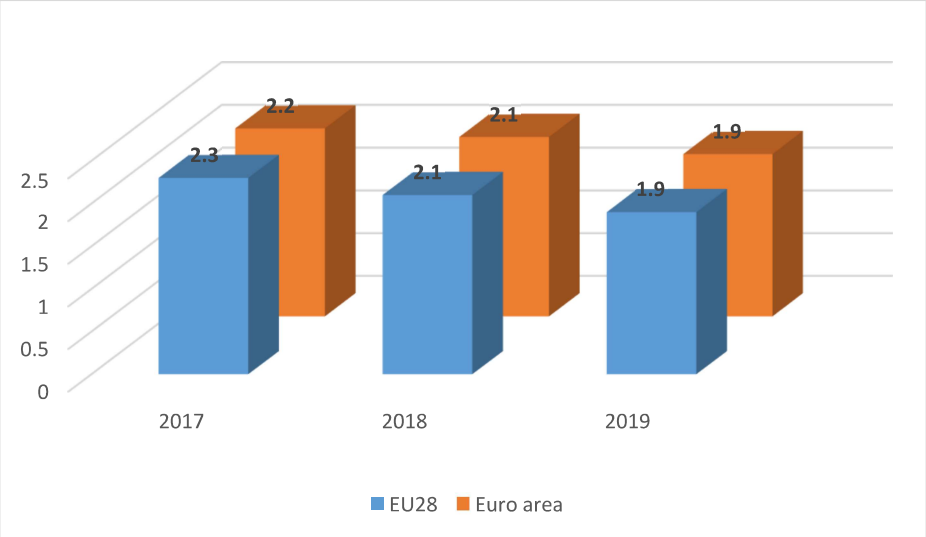


Figure 2: Annual economic growth rates in EU28 vs Euro area (% of GDP)Source: author's contribution

Romania as member of the EU28 succeeded in achieving higher economicgrowth rates than EU28 and Euro area (see Figure 3). The first question is that Romania is under a fast catching up economic process in order to obtainthe best economic results?

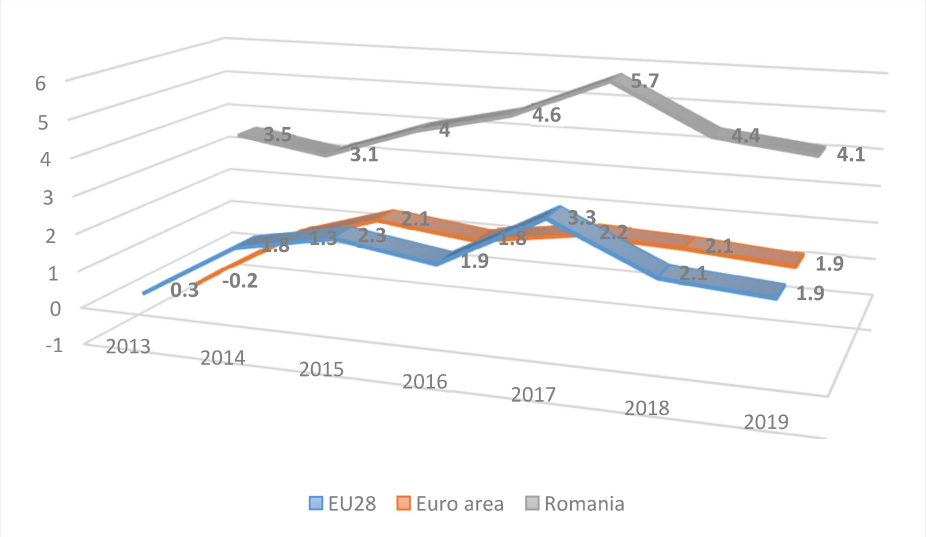


Figure 3: The trend of the economic growth (% of GDP)Source: author's contribution

According to the classic economics, GDP is calculated as:

$$GDP = PC + GC + GFCF + (EXP - IMP), \quad (1)$$

where: PC – private consumption; GE- public (governmental) consumption;GFCF – gross fixed capital formation; EXP – export of goods and services; IMP – import of goods and services.

This above formula is correct but it is not able to point out if the increase in annual GDP is healthy or not.

The present paper offers an answer to the question regarding the nature of the economic growth and offers a new approach in solving the connection between GDP and real welfare.

2. Literature review

This literature review is focused on crises and globalisation in the context ofGDP variation across the main economic global actors.

A main problem put into discussion is that related to the information regarding the economic growth. Usually, these information are direct connected to production and have as result the welfare. But the economic reality points out that welfare is dependent on more factors than production. These factors cover: labour and labour conditions, the natural environment, income distribution, and leisure time. As the result, this research analysed four ways to correct the current information about economic growth (Hueting, R., 2010).

From the regional point of view, the economic growth is analysed in connection to the role of the cities. These cities are able to support the economic growth and development. Moreover, the cities increase the spatial concentrations and reduce the transactions costs. On the other hand, the same spatial concentrations can increase the idea exchange regarding good practices in achieving economic growth. This exchange can become better than the models or planning (Gordon, P., 2012).

The economic growth is not analysed as a static process. As a result, other research started to the above idea of the cities as support for developmentand took into consideration a stochastic frontier production model able to quantify the total factor productivity. The model is applied to a specific concentration area as Shanghai. Moreover, the same analysis took into consideration the Tobit model, in order to express the production efficiency. This efficiency is directly dependent by the technology progress. The analysis leads to the conclusion that it is a positive correlation between the economic growth and human resources level and infrastructure level. On the other hand, there is a negative correlation with

the share of government spending in GDP (He, J., Yu, Y., Liu, Q. and Zhang, Y., 2013).

An interesting literature review puts in direct connection the economic growth, corruption and income inequality. This corruption is the support ofincreasing the gap between the rich and the poor population. According to this approach, a correct economic analysis has to be divided into three components: first, the relationship between economic growth and corruption. The second component covers the relationship between economic growth and income inequality, while the third one the relationship between corruption and income inequality (娅丽段, 2015).

For the developing economies the economic growth is important because it can create productive jobs at macro, regional and local economic organisations. As a result, a powerful direct relationship appears between the growth and the economic activity with the employment. The technical progress has an important role in this process (Basnett, Y., 2017).
Finally, a large analysis is focused on the connection between the economicdevelopment and the economic growth. The specialists realise a retrospective review of the transformation of various views related to economic growth. They started from the classic approaches and definitionsand finished with the contemporaries. On the other hand, the analysis is focused on the paradox economic growth without development and economic development without growth. The analysis covers the macro, meso and micro levels. The final conclusion of the analysis is that economicgrowth is a tool which is able to achieve the goals of the economic development (Kondrashova, N.V. & Lozhkina, I.Y., 2017).

The present paper proposes a new approach regarding the effects of an unhealthy economic growth on the future development.

Methods and methodology

In order to obtain a better approach regarding a healthy growth of the GDP, the following hypothesis have to be taken into consideration:

H1: The private consumption has to cover at most 55% of GDP, which is theEU28 average value;

H2: The public consumption has to cover about 20% of GDP according to thesame EU average value of this indicator;

H3: The gross fixed capital formation would cover about 20% of

GDP;H4: The net export has to be positive and as large as possible.

The statistical data resulted from the built databased were presented in Table1.

Table 1: Statistical database for 2017 (% of GDP)

GDP components	EU28	Euro area	Romania
PC	56.0	54.6	61.8
GC	20.4	20.6	14.1
GFCF	19.8	20.3	22.7
EXP-IMP	3.4	4.5	-0.9

Source: author contribution

According to the above presentation, the propose model is basically a maximization function as:

$$Y = [max] \sum_{i=1}^{4} (PC * a_i + GC * b_i + GFKF * c_i + (EXP - IMP) * d_i) + \varepsilon, \quad (2)$$

where: $EXP - IMP > 0, \quad Exp - IMP \rightarrow \infty$

ε - correction element, $\varepsilon \neq 0$; i – all three economic entities; a, b, c, d, e - coefficients that express the weight of each indicator in GDP.

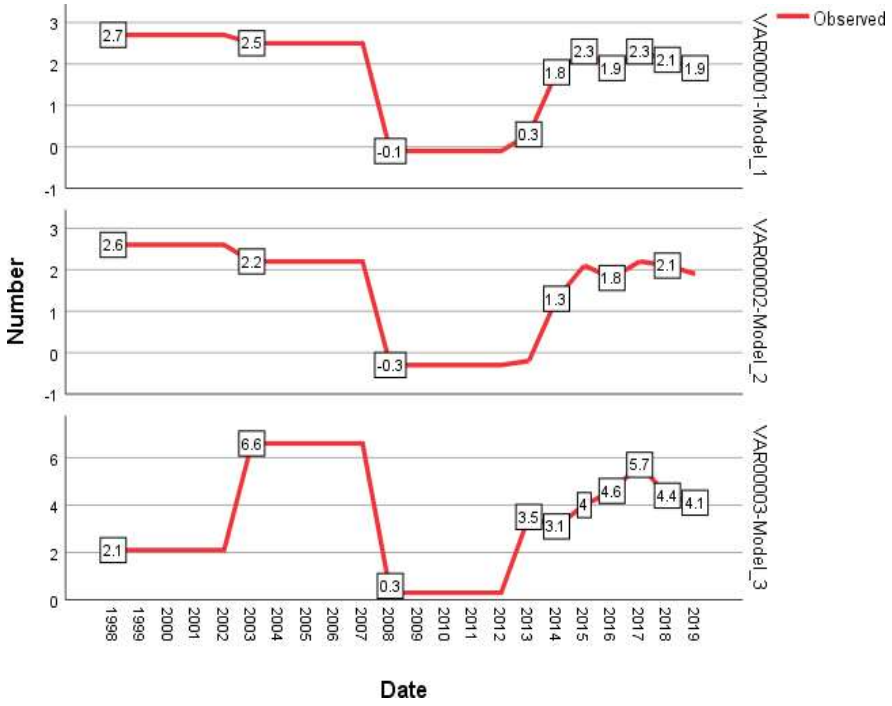
According to H2 and H3: b = c = 0.2. Moreover, according to H1, a= 0.55.

3. Results and discussion

The analysis of the data from Table 1 leads to the idea to test the proposed model for 2017 and to apply it during a short forecast using SPSS software.

In order to obtain the best result, the statistical data used in the analysis cover 20 years (1998-2017). All the four components of the GDP are used in this modelling approach.

For the beginning, the GDP will be calculated according to the new model as in Figure 4.

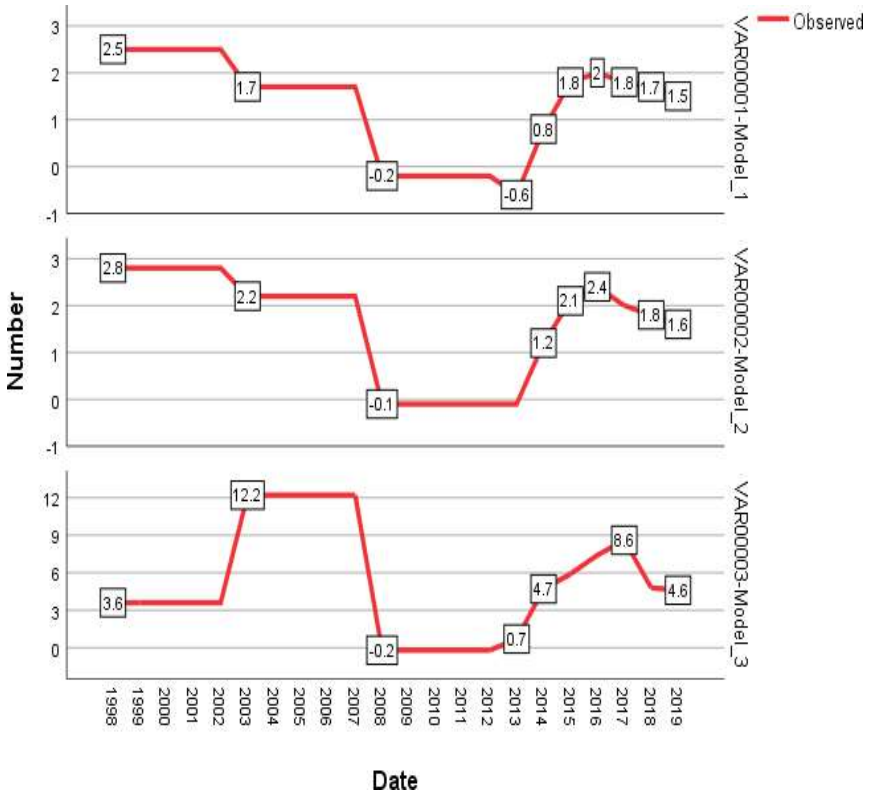


VAR00001 – Euro area; VAR00002 – EU28; VAR00003 – Romania.

Figure 4: The trend of the economic growth (% of GDP)Source: author's contribution

The analysis was realized under ARIMA conditions, where time was the independent variable. According to Figure 4, Romania will achieve better GDP growth rates than EU28 and Euro area during 2018-2019. For Romania, we used the official exchange rate 1 Euro = 4.5411 (National Bank ofRomania, 2016).

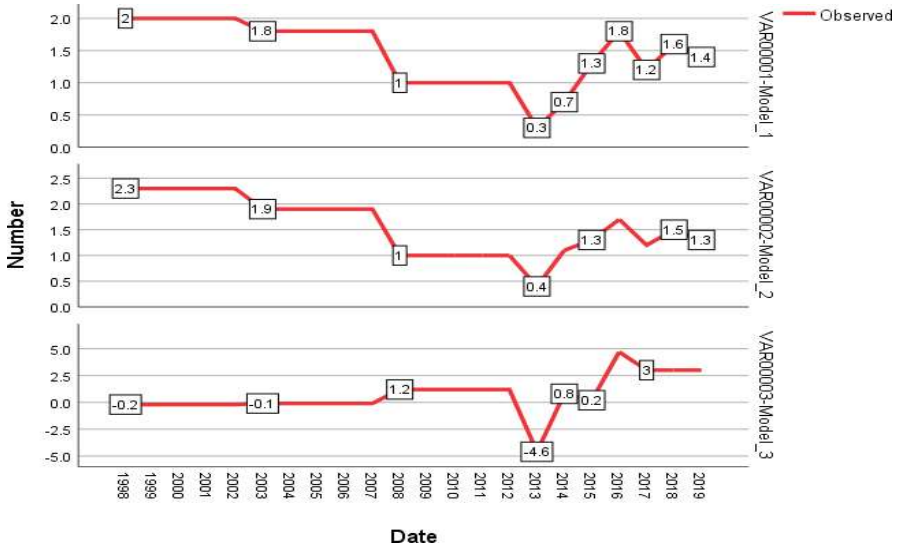
The forecasting of the Private consumption leads to the following evolution(see Figure 5). Evan that the private consumption's trend is descending forall three economic entities during the forecasting period, there are great disparities between the private consumption's rates in EU28 and Euro areaand Romania.



VAR00001 – Euro area; VAR00002 – EU28; VAR00003 – Romania.

Figure 5: The trend of the private consumption growth rate (%)
Source: author's contribution

The next economic indicator taken into account is public consumption. Its rate of growth is almost constant during the forecasting period, but the disparities between the three entities persist (see Figure 6).



VAR00001 – Euro area; VAR00002 – EU28; VAR00003 – Romania.

Figure 6: The trend of the public consumption growth rate (%)
Source: author's contribution

The gross fixed capital formation was influenced by the economic evolution,including the impact of the global crisis. EU28 and Euro area will face to a decrease in this indicator annual growth rate during the forecasting period. On the other hand, Romania will achieve greater annual rates (see Figure 7).

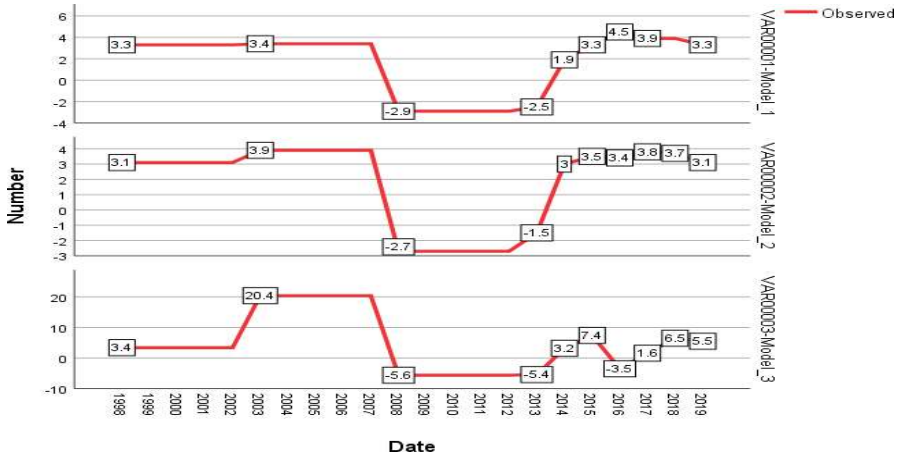


Figure 7: The trend of the gross fixed capital formation growth rate (%)
Source: author's contribution

Finally, the terms of trade of goods'analysis leads to the following diagram (see Figure 8).

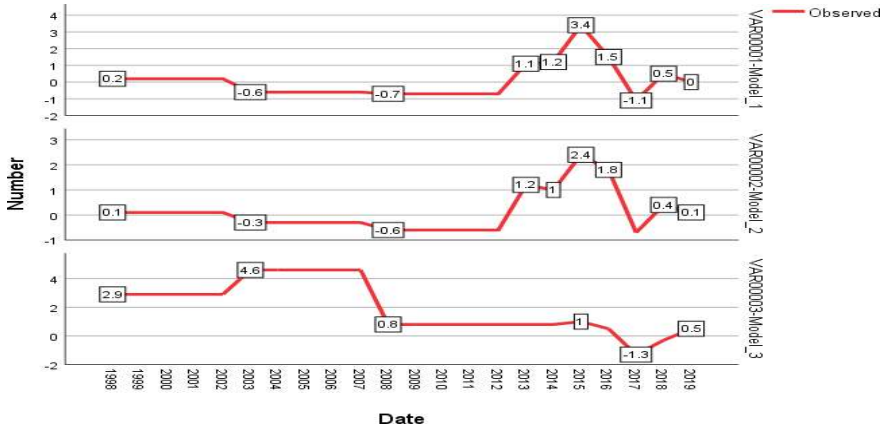


Figure 8: The trend of the terms of trade of goods growth rate (%)Source: author's contribution

The absolute values of the analysed indicators at the end of the reference statistical period are presented in Table 2.

Table 2: Statistical database for 2019 (mill. Euro)

Economic indicator	Euro area	EU28	Romania
GDP	11472.9	15833.6	192.8
Private consumption	6191.0	8788.9	123.5
Public consumption	2313.3	3151.0	25.8
Gross fixed capital formation	2441.3	3272.4	43.4
Terms of trade of goods	527.3	621.3	0.1

Source: author contribution

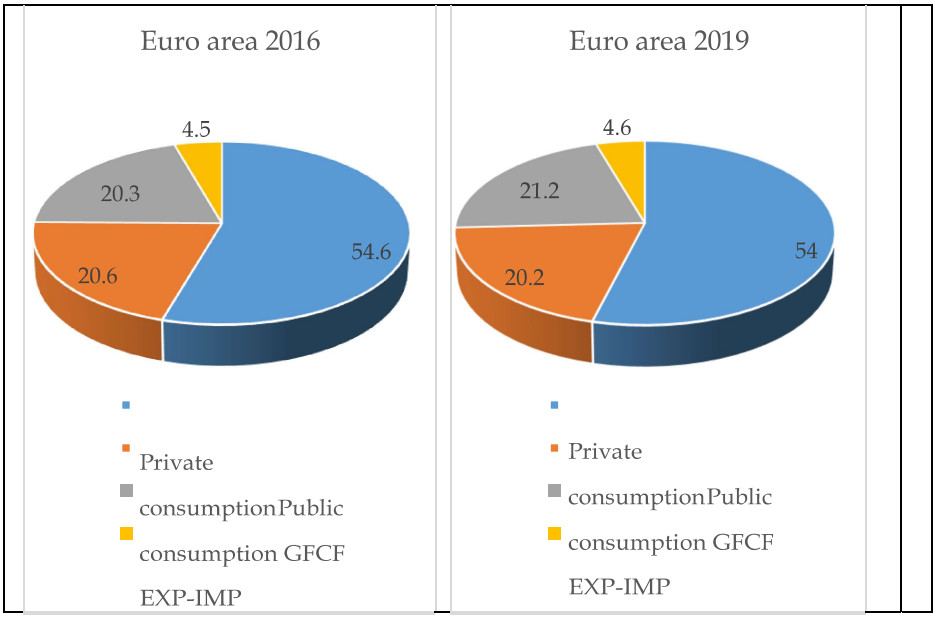
The problem is if this growth is a healthy one or not? In order to answer tothis question, a comparative analysis would be made. This comparison willfocused on 2016 and the end of the forecasted period (2019) for each economic entities.

According to the private consumption, the results of the analysis are presented in Figure 9. According to data from this figure, Euro area and

EU 28 will have the same trend in decreasing the private and public consumption's expenditures in 2019 compared to 2016. Romania will face to an increase in private consumption in 2019 compared to 2016, which will support a false economic growth based on consumption.

On the other hand, the gross fixed capital formation (GFCF) will decrease asannual rate in Romania in 2019 compared to 2016. This indicator's trend inEuro area and EU28 is positive both to Euro area and EU28.

Finally, the trade of goods will have a positive impact on GDP growth in 2019 compared to 2016 in Euro area and EU28. Even than Romania will pass from negative to positive contribution of the trade of goods in 2019, the Romanian export efficiency will be low.



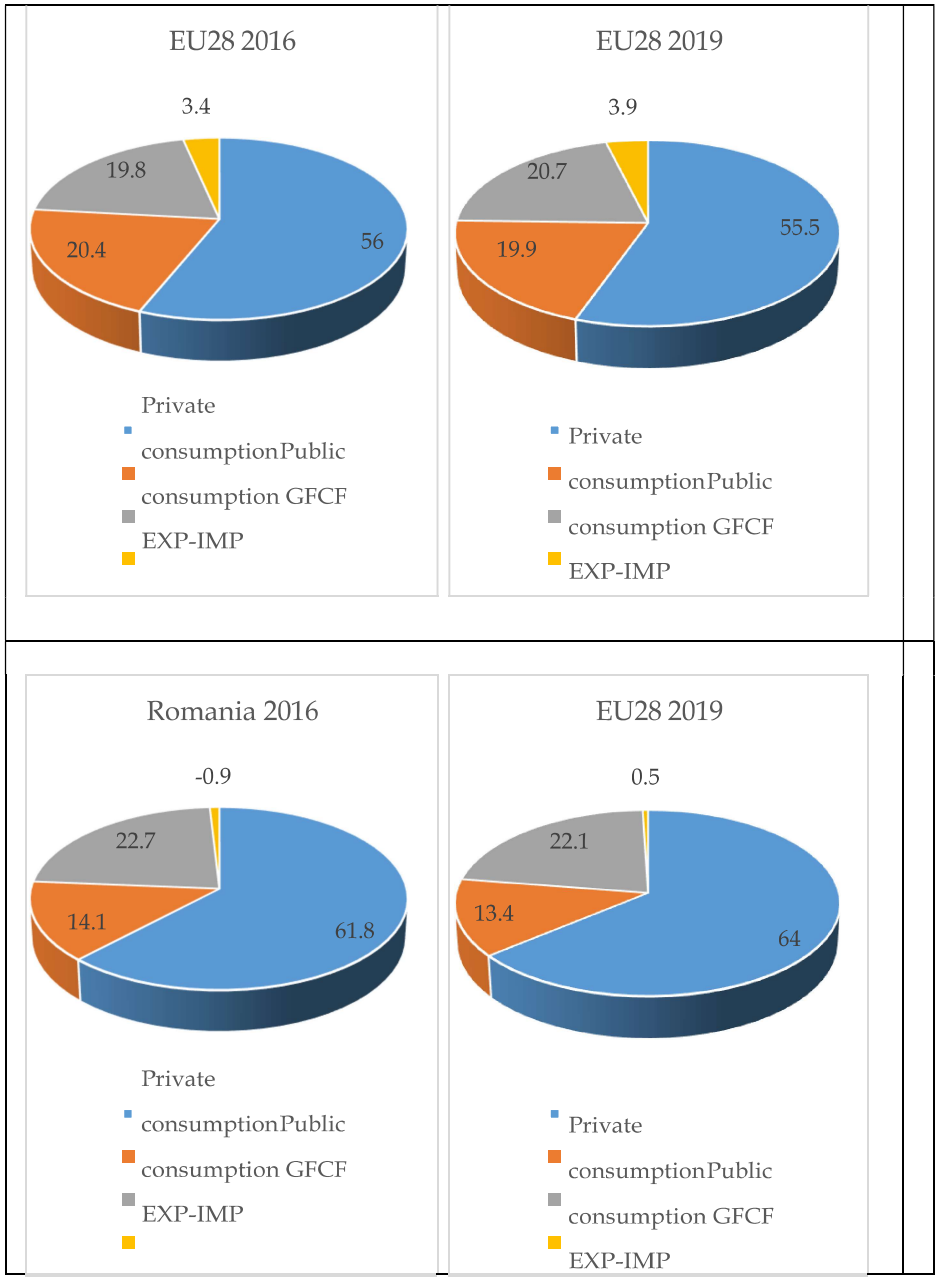


Figure 9: Comparative analysis regarding GDP structure in 2016 and 2019 (%)
Source: author's contribution

4. Conclusion

The analysis in this paper is supported by a new model of quantifying GDP in order to point out the quality of the economic growth. The application of the model was realised according to the research four hypothesis.

As a result, the forecasted private consumption will achieve 55% of GDP inEuro area and EU28 in 2019. The first hypothesis (H1) was verified.

The public consumption will decrease to about 20% of GDP in the above both economic entities in 2019. This means that the second hypothesis (H2) wasverified, as well.

The gross fixed capital formation quantified using the proposed model willcover about 20% of GDP in 2019. The third hypothesis is checked, too.

Finally, the net export has to be positive and as large as possible. It will varyabout 4% in Euro area and EU28 in 2019.This leads to the hypothesis H4.

We can conclude that the proposed model in this paper is homogeneous, well determined and statistically significant for the studied phenomenon.

The Romania's GDP structure is not the same with the European average. Moreover, the GDP's components trend in Romania is different from those in EU28 and Euro area.

Romania will face to an increase in private consumption in 2019 as againstthe trend of the same indicator in Euro area and EU28. Finally, the private and public consumption in Romania will be higher than the averages in Euroarea and EU28. This will have a negative impact on the GDP growth in Romania, which will be based on consumption. It will not be a healthy economic growth.

On the other hand, the GFCF weight in GDP structure will decrease in 2019,from 22.7% to 22.1%. The same indicator will increase in Euro area and EU28.It is a second condition to an unhealthy economic growth.

Romania will succeed in passing the traditional negative impact of the foreign trade with goods and services on GDP in 2019. The problem is that the positive contribution of the net export of goods and services will be minim. This will not support a healthy economic growth in Romania, as well.

The above analysis leads to the conclusion that the economic growth in Romania is not based on economic performance, but on consumption. This process will have unfortunate repercussions on the Romanian economy in the future. The limitations of the study are difficult to highlight.

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